

City of Kensington

Kensington, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

December 31, 2010

**MAPES & MILLER
Certified Public Accountants
Phillipsburg, Kansas 67661**

**CITY OF KENSINGTON
Kensington, Kansas**

December 31, 2010

City Council

**Judy Bates
George Powell
Terry Smith**

**JoAnn Rice
David Wahl**

Leland Rahjes, Mayor

**Mary Beach
Tonja Westerman**

**City Clerk
City Treasurer**

**City of Kensington
Kensington, Kansas**

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INDEPENDENT AUDITOR'S REPORT

**Mayor and City Council
City of Kensington, Kansas 66951**

We have audited the accompanying financial statements of the City of Kensington, Kansas, as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the City's primary government, as listed in the table of contents. These financial statements are the responsibility of the City of Kensington, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the City of Kensington, Kansas has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

Mayor and City Council
Kensington, Kansas
August 8, 2011
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In our opinion, because of the omission of the component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Kensington, Kansas, as of December 31, 2010, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the governing body and management of the City of Kensington, Kansas, and for filing with the Kansas Department of Administration, Division of Accounts and Reports and other federal and state agencies to whose jurisdiction the City is subject, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City Council, is a matter of public record.

Respectfully submitted,

Mapes & Miller CPAs
Certified Public Accountants

August 8, 2011
Phillipsburg, Kansas

CITY OF KENSINGTON
Kensington, Kansas

Statement 1

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
For the Year Ended December 31, 2010

| FUNDS | Beginning Unencumbered Cash Balance | Prior Year Cancelled Encumbrances | Cash Receipts | Expenditures | Ending Unencumbered Cash Balance | Add Outstanding Encumbrances and Accounts Payable | Ending Cash Balance |
|---------------------------------|--|--|--------------------------|---------------------|---|--|--------------------------------|
| Governmental Type Funds: | | | | | | | |
| General Fund | | | | | | | |
| General Operating Fund | \$ 63,910 | \$ - | \$ 134,217 | \$ 132,911 | \$ 65,216 | \$ 10,910 | \$ 76,126 |
| Special Revenue Funds | | | | | | | |
| Library Fund | 597 | - | 6,778 | 6,500 | 875 | - | 875 |
| Park & Recreation Fund | 253 | - | 1,368 | 1,392 | 229 | 100 | 329 |
| Special Highway Fund | 1,692 | - | 12,230 | 11,750 | 2,172 | - | 2,172 |
| Capital Improvements Fund | 203,004 | - | 18,000 | 34,282 | 186,722 | - | 186,722 |
| Gifts & Grants Fund | 18,374 | - | - | 18,374 | - | - | - |
| Proprietary Type Funds: | | | | | | | |
| Enterprise Funds | | | | | | | |
| Swimming Pool Fund | 83 | - | 9,971 | 9,927 | 127 | - | 127 |
| Water Fund | 14,579 | - | 68,553 | 66,448 | 16,684 | 2,909 | 19,593 |
| Sewer Fund | 21,709 | - | 46,272 | 45,348 | 22,633 | 100 | 22,733 |
| Solid Waste Fund | 19,581 | - | 28,289 | 27,090 | 20,780 | - | 20,780 |
| Utility Meter Deposit Fund | - | - | 1,100 | 1,100 | - | 5,250 | 5,250 |
| Total Primary Government | \$ 343,782 | \$ - | \$ 326,778 | \$ 355,122 | \$ 315,438 | \$ 19,269 | \$ 334,707 |
| Composition of Cash: | | | | | | | |
| Cash on Hand | | | | | | | \$ 40 |
| Checking Account | | | | | | | 200 |
| NOW Account | | | | | | | 127,059 |
| CDs | | | | | | | 207,408 |
| Total Primary Government | | | | | | | \$ 334,707 |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 2

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
For the Year Ended December 31, 2010

| FUNDS | Certified Budget | Adjustment for Qualifying Budget Credits | Total Budget for Comparison | Expenditures Chargeable to Current Year | Variance Over (Under) |
|---------------------------------|---------------------|--|-----------------------------------|---|-----------------------------|
| Governmental Type Funds: | | | | | |
| General Fund | | | | | |
| General Operating Fund | \$ 225,658 | \$ - | \$ 225,658 | \$ 132,911 | \$ (92,747) |
| Special Revenue Funds | | | | | |
| Library Fund | 6,500 | - | 6,500 | 6,500 | - |
| Park & Recreation Fund | 1,505 | - | 1,505 | 1,392 | (113) |
| Special Highway Fund | 16,019 | - | 16,019 | 11,750 | (4,269) |
| Proprietary Type Funds: | | | | | |
| Enterprise Funds | | | | | |
| Swimming Pool Fund | 12,754 | - | 12,754 | 9,927 | (2,827) |
| Water Fund | 84,148 | - | 84,148 | 66,448 | (17,700) |
| Sewer Fund | 62,782 | - | 62,782 | 45,348 | (17,434) |
| Solid Waste Fund | 43,581 | - | 43,581 | 27,090 | (16,491) |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

GENERAL OPERATING FUND

| | Actual | Budget | Variance Over (Under) |
|---|------------------|-------------------|-----------------------------|
| CASH RECEIPTS | | | |
| Ad Valorem Tax | \$ 56,463 | \$ 55,869 | \$ 594 |
| Delinquent Tax | 3,203 | 1,200 | 2,003 |
| Motor Vehicle Tax | 19,956 | 18,787 | 1,169 |
| Recreational Vehicle Tax | 300 | 276 | 24 |
| 16/20M Vehicle Tax | 342 | 254 | 88 |
| Intangibles Tax | 20,994 | 19,497 | 1,497 |
| Local Alcoholic Liquor Tax | 1,368 | 767 | 601 |
| Franchise Tax | 16,435 | 16,500 | (65) |
| Licenses & Permits | 310 | 550 | (240) |
| Fines | 1,499 | 3,500 | (2,001) |
| Interest on Idle Funds | 5,542 | 15,000 | (9,458) |
| Reimbursements | 6,604 | 20,000 | (13,396) |
| Miscellaneous Receipts | - | 5,000 | (5,000) |
| State Aid | 1,201 | - | 1,201 |
| | <u>134,217</u> | <u>\$ 157,200</u> | <u>\$ (22,983)</u> |
| Total Cash Receipts | | | |
| EXPENDITURES | | | |
| Personal Services | 28,186 | \$ 34,000 | \$ (5,814) |
| Law Enforcement | 8,400 | 8,500 | (100) |
| Insurance | 17,325 | 18,000 | (675) |
| Utilities | 17,062 | 17,000 | 62 |
| Taxes | 4,933 | 6,000 | (1,067) |
| Attorney | 725 | 1,800 | (1,075) |
| Printing & Advertising | 1,205 | 1,400 | (195) |
| Merchandise | - | 1,000 | (1,000) |
| Swimming Pool | | | |
| Personal Services | 5,232 | 16,000 | (10,768) |
| Repairs | 896 | - | 896 |
| Chemicals | 4,591 | - | 4,591 |
| Utilities | 2,864 | - | 2,864 |
| Concessions | 593 | - | 593 |
| Miscellaneous | 113 | - | 113 |
| Streets | - | 38,152 | (38,152) |
| Miscellaneous Expenditures | 3,147 | 5,000 | (1,853) |
| Contractual Services | 17,562 | 12,000 | 5,562 |
| Capital Outlay | 19,518 | 33,106 | (13,588) |
| Reimbursements | - | 2,500 | (2,500) |
| Alcoholic Beverage Control | 25 | 200 | (175) |
| NWKP | 534 | 1,000 | (466) |
| Outgoing Transfer | | | |
| Capital Improvements Fund | - | 30,000 | (30,000) |
| | <u>132,911</u> | <u>\$ 225,658</u> | <u>\$ (92,747)</u> |
| Total Expenditures | | | |
| Cash Receipts Over (Under) Expenditures | 1,306 | | |
| UNENCUMBERED CASH, January 1, 2010 | <u>63,910</u> | | |
| UNENCUMBERED CASH, December 31, 2010 | <u>\$ 65,216</u> | | |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

LIBRARY FUND

| | <u>Actual</u> | <u>Budget</u> | <u>Variance Over (Under)</u> |
|---|---------------|-----------------|--------------------------------------|
| CASH RECEIPTS | | | |
| Ad Valorem Tax | \$ 4,720 | \$ 4,571 | \$ 149 |
| Delinquent Tax | 279 | 50 | 229 |
| Motor Vehicle Tax | 1,721 | 1,588 | 133 |
| Recreational Vehicle Tax | 26 | 23 | 3 |
| 16/20M Vehicle Tax | 32 | 22 | 10 |
| | <u>6,778</u> | <u>\$ 6,254</u> | <u>\$ 524</u> |
| EXPENDITURES | | | |
| Appropriation to Library | <u>6,500</u> | <u>\$ 6,500</u> | <u>\$ -</u> |
| Cash Receipts Over (Under) Expenditures | 278 | | |
| UNENCUMBERED CASH, January 1, 2010 | <u>597</u> | | |
| UNENCUMBERED CASH, December 31, 2010 | <u>\$ 875</u> | | |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

PARK & RECREATION FUND

| | <u>Actual</u> | <u>Budget</u> | <u>Variance Over (Under)</u> |
|---|-----------------------------|----------------------|--------------------------------------|
| CASH RECEIPTS | | | |
| Local Alcoholic Liquor Tax | <u>\$ 1,368</u> | <u>\$ 768</u> | <u>\$ 600</u> |
| EXPENDITURES | | | |
| Contractual Services | <u> 1,392</u> | <u>\$ 1,505</u> | <u>\$ (113)</u> |
| Cash Receipts Over (Under) Expenditures | (24) | | |
| UNENCUMBERED CASH, January 1, 2010 | <u> 253</u> | | |
| UNENCUMBERED CASH, December 31, 2010 | <u><u>\$ 229</u></u> | | |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

SPECIAL HIGHWAY FUND

| | Actual | Budget | Variance Over (Under) |
|---|-----------|-----------|-----------------------------|
| CASH RECEIPTS | | | |
| Special Gasoline Tax | \$ 12,230 | \$ 13,630 | \$ (1,400) |
| EXPENDITURES | | | |
| Contractual Services | 11,750 | \$ 11,334 | \$ 416 |
| Outgoing Transfer | | | |
| Capital Improvements Fund | - | 4,685 | (4,685) |
| Total Expenditures | 11,750 | \$ 16,019 | \$ (4,269) |
| Cash Receipts Over (Under) Expenditures | 480 | | |
| UNENCUMBERED CASH, January 1, 2010 | 1,692 | | |
| UNENCUMBERED CASH, December 31, 2010 | \$ 2,172 | | |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2010

CAPITAL IMPROVEMENTS FUND

| | <u>Actual</u> |
|---|--------------------------|
| CASH RECEIPTS | |
| Incoming Transfers | |
| Sewer Fund | \$ 15,000 |
| Solid Waste Fund | <u>3,000</u> |
| Total Cash Receipts | <u>18,000</u> |
| EXPENDITURES | |
| Capital Outlay | <u>34,282</u> |
| Cash Receipts Over (Under) Expenditures | (16,282) |
| UNENCUMBERED CASH, January 1, 2010 | <u>203,004</u> |
| UNENCUMBERED CASH, December 31, 2010 | <u><u>\$ 186,722</u></u> |

GIFTS & GRANTS FUND

| | <u>Actual</u> |
|---|--------------------|
| CASH RECEIPTS | <u>\$ -</u> |
| EXPENDITURES | |
| Capital Outlay | <u>18,374</u> |
| Cash Receipts Over (Under) Expenditures | (18,374) |
| UNENCUMBERED CASH, January 1, 2010 | <u>18,374</u> |
| UNENCUMBERED CASH, December 31, 2010 | <u><u>\$ -</u></u> |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

SWIMMING POOL FUND

| | Actual | Budget | Variance Over (Under) |
|---|---------------|---------------|-----------------------------|
| CASH RECEIPTS | | | |
| Admissions | \$ 6,123 | \$ 7,000 | \$ (877) |
| Concessions | 2,028 | 500 | 1,528 |
| Lessons | 1,320 | 2,500 | (1,180) |
| Grant | 500 | - | 500 |
| | <u>9,971</u> | <u>10,000</u> | <u>(29)</u> |
| EXPENDITURES | | | |
| Personal Services | 7,042 | \$ 5,100 | \$ 1,942 |
| Utilities | 521 | 2,800 | (2,279) |
| Supplies | - | 500 | (500) |
| Chemicals | 337 | 2,490 | (2,153) |
| Concessions | 771 | 100 | 671 |
| Repairs | 830 | 1,500 | (670) |
| Red Cross Training | 304 | 264 | 40 |
| Miscellaneous Expenditures | 122 | - | 122 |
| | <u>9,927</u> | <u>12,754</u> | <u>(2,827)</u> |
| Cash Receipts Over (Under) Expenditures | 44 | | |
| UNENCUMBERED CASH, January 1, 2010 | <u>83</u> | | |
| UNENCUMBERED CASH, December 31, 2010 | <u>\$ 127</u> | | |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

WATER FUND

| | <u>Actual</u> | <u>Budget</u> | <u>Variance Over (Under)</u> |
|---|---------------|---------------|--------------------------------------|
| CASH RECEIPTS | | | |
| Fees Collected | \$ 68,553 | \$ 71,000 | \$ (2,447) |
| EXPENDITURES | | | |
| Personal Services | 16,515 | \$ 23,000 | \$ (6,485) |
| Operations | 49,933 | 47,000 | 2,933 |
| Capital Outlay | - | 4,970 | (4,970) |
| Outgoing Transfers | | | |
| Capital Improvements Fund | - | 5,000 | (5,000) |
| Sewer Fund | - | 4,178 | (4,178) |
| Total Expenditures | 66,448 | \$ 84,148 | \$ (17,700) |
| Cash Receipts Over (Under) Expenditures | 2,105 | | |
| UNENCUMBERED CASH, January 1, 2010 | 14,579 | | |
| UNENCUMBERED CASH, December 31, 2010 | \$ 16,684 | | |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

SEWER FUND

| | Actual | Budget | Variance Over (Under) |
|---|------------------|------------------|-----------------------------|
| CASH RECEIPTS | | | |
| Fees Collected | \$ 46,272 | \$ 47,000 | \$ (728) |
| Incoming Transfer | | | |
| Water Fund | - | 4,178 | (4,178) |
| | <u>46,272</u> | <u>\$ 51,178</u> | <u>\$ (4,906)</u> |
| Total Cash Receipts | | | |
| EXPENDITURES | | | |
| Personal Services | 10,031 | \$ 8,700 | \$ 1,331 |
| Operations | 6,102 | 16,999 | (10,897) |
| Capital Outlay | - | 16,641 | (16,641) |
| Principal | 11,203 | 11,203 | - |
| Interest | 2,801 | 3,012 | (211) |
| Service Fees | 211 | - | 211 |
| Outgoing Transfer | | | |
| Capital Improvements Fund | 15,000 | 6,227 | 8,773 |
| | <u>45,348</u> | <u>\$ 62,782</u> | <u>\$ (17,434)</u> |
| Total Expenditures | | | |
| Cash Receipts Over (Under) Expenditures | 924 | | |
| UNENCUMBERED CASH, January 1, 2010 | <u>21,709</u> | | |
| UNENCUMBERED CASH, December 31, 2010 | <u>\$ 22,633</u> | | |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

Statement 3
(Cont.)

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010

SOLID WASTE FUND

| | <u>Actual</u> | <u>Budget</u> | <u>Variance Over (Under)</u> |
|---|------------------|------------------|--------------------------------------|
| CASH RECEIPTS | | | |
| Fees Collected | \$ 28,289 | \$ 30,000 | \$ (1,711) |
| EXPENDITURES | | | |
| Removal of Waste | 24,090 | \$ 25,000 | \$ (910) |
| Testing & Tipping Fees | - | 10,581 | (10,581) |
| Outgoing Transfer | | | |
| Capital Improvements Fund | <u>3,000</u> | <u>8,000</u> | <u>(5,000)</u> |
| Total Expenditures | <u>27,090</u> | <u>\$ 43,581</u> | <u>\$ (16,491)</u> |
| Cash Receipts Over (Under) Expenditures | 1,199 | | |
| UNENCUMBERED CASH, January 1, 2010 | <u>19,581</u> | | |
| UNENCUMBERED CASH, December 31, 2010 | <u>\$ 20,780</u> | | |

The notes to the financial statements are an integral part of this statement.

**CITY OF KENSINGTON
Kensington, Kansas**

**Statement 3
(Cont.)**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010**

UTILITY METER DEPOSIT FUND

| | <u>Actual</u> |
|---|-------------------------------------|
| CASH RECEIPTS | |
| Utility Deposits | <u>\$ 1,100</u> |
| EXPENDITURES | |
| Refunds | <u> 1,100</u> |
| Cash Receipts Over (Under) Expenditures | - |
| UNENCUMBERED CASH, January 1, 2010 | <u>-</u> |
| UNENCUMBERED CASH, December 31, 2010 | <u><u>\$ -</u></u> |

The notes to the financial statements are an integral part of this statement.

CITY OF KENSINGTON
Kensington, Kansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Kensington, Kansas, the primary government, was incorporated in 1887, and operates as a third class city in accordance with the laws of the State of Kansas. The City operates under a mayor-council form of government and provides the following services: public safety (police and fire protection), highways and streets, water, sewer, sanitation, health and social services, culture and recreation services, planning and zoning, public improvements, and general administrative services.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Housing Authority and Library Board are component units of the City. Financial information for the component units have not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with generally accepted accounting principles.

The governing bodies of the following are appointed by the City:

- 1) **Housing Authority.** The City of Kensington Housing Authority operates the City's housing projects. The housing authority can sue and be sued, and can buy, sell, or lease real property. Bond issuance must be approved by the City.
- 2) **Library.** The City of Kensington Library Board operates the City's Public Library. Acquisition or disposition of real property by the board must be approved by the City. The City levies taxes for the Library. Bond issuances must be approved by the City.

The component units' unaudited financial statements can be obtained from the City Clerk.

FUND ACCOUNTING

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary. Within each of these three categories there are one or more fund types. The City uses the following fund types:

Governmental Type Funds

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes only.

Proprietary Type Funds

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

BASIS OF ACCOUNTING

Statutory Basis of Accounting - The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America- The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

LEAVE POLICIES

Vacation and Sick Leave

The City Clerk and maintenance person receive fifteen days of vacation each year with five of those days being accumulative. The maintenance person receives thirty days of non-accumulative sick leave each year. Unused sick leave cannot be carried over to the following year unless approved by the City Council. No sick leave was approved for carryover as of December 31, 2010.

The total cost of the accumulated vacation payable accrued as of December 31, 2010 is shown on Note 10, and will be recorded as an expenditure at the time the vacation is utilized as normal personal services expenditures.

REIMBURSEMENTS

Reimbursements are defined as repayments of amounts remitted on behalf of another party. All reimbursements shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursement was directly tied to the amount of the original cash disbursement.

2. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.

3. Public hearing on or before August 15th, but at least ten days after publication of notice hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended December 31, 2010.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received, and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds, fiduciary funds, permanent funds, and the following:

Special Revenue Funds:
 Capital Improvements Fund
 Gifts & Grants Fund
Enterprise Fund:
 Utility Meter Deposit Fund

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

3. PROPERTY TAXES

Property taxes are levied November 1st of the calendar year. A lien is placed on the property when the taxes are levied. The taxes are due ½ on December 20th and ½ the following May 10th. Any taxes unpaid at the due dates are considered delinquent. Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year: such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operation of the City and therefore are not susceptible to accrual.

It is not practical to apportion delinquent taxes held by the County Treasurer at the end of the audit period and, further, the amounts thereof are not material to the financial statements taken as a whole.

4. COMPLIANCE WITH KANSAS STATUTES

- A. Fund encumbrance records were not maintained during the year ended December 31, 2010 as required by K.S.A. 10-1117.
- B. The City is not aware of any other non-compliance with Kansas statutes.

5. DEPOSITS AND INVESTMENTS

Deposits

As of December 31, 2010, the City of Kensington had no investments, other than certificates of deposit, which are considered deposits under GASB Statements No. 3. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining County, if such an institution has been designated as an official depository and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during the designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2010.

At December 31, 2010, the City's carrying amount of deposits was \$334,667 and the bank balance was \$337,665. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance \$250,131 was covered by federal depository insurance, \$87,534 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

6. INTERFUND TRANSFERS

| From | To | Statutory Authority | Amount |
|------------------|---------------------------|---------------------|-----------|
| Sewer Fund | Capital Improvements Fund | K.S.A. 12-825d | \$ 15,000 |
| Solid Waste Fund | Capital Improvements Fund | K.S.A. 12-825d | 3,000 |

7. DEFINED BENEFIT PENSION PLAN

Plan description

The City of Kensington contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100; Topeka, KS 66603-3869) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The KPERS employer rate established for calendar year 2010, which includes pension contributions and Group Death Disability insurance was 7.14%. The employer contributions to KPERS for the year ending December 31, 2010, 2009, and 2008 were \$2,860, \$2,484, and \$2,084, respectively, equal to the required contributions for each year, as set forth by the legislature.

8. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage.

The American Recovery and Reinvestment Act of 2010 (ARRA), as amended, provides for premium reductions for health benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985, commonly called COBRA. The premium assistance is also available for continuation coverage under certain State laws. "Assistance Eligible Individuals" pay only 35% of their COBRA premiums; the remaining 65% is reimbursed to the coverage provider through a tax credit. The premium reduction applies to periods of health coverage that began on or after February 17, 2010 and lasts for up to fifteen months.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the City purchases commercial insurance.

During the year ended December 31, 2010, the City did not reduce insurance coverage from levels in place during the prior year. Settlements did not exceed coverage levels in place during the year ended December 31, 2010.

10. LONG-TERM DEBT

Changes in long-term liabilities for the City for the year ended December 31, 2010, were as follows:

| Issue | Interest Rates | Date of Issue | Amount of Issue | Date of Final Maturity | Beginning Balance 1/1/2010 | Additions | Reductions/ Payments | Net Change | Ending Balance 12/31/2010 | Interest/ Service Fees Paid |
|----------------------|----------------|---------------|-------------------|------------------------|----------------------------|---------------|----------------------|-------------|---------------------------|-----------------------------|
| KDHE Loan | 3.56% | 11/27/95 | \$ 208,959 | 2016 | \$ 87,394 | \$ - | \$ 11,203 | \$ - | \$ 76,191 | \$ 3,012 |
| Compensated Absences | | | | | | | | | | |
| Accumulated Vacation | N/A | N/A | N/A | N/A | 696 | 368 | - | - | 1,064 | - |
| Total Long-Term Debt | | | <u>\$ 208,959</u> | | <u>\$ 88,090</u> | <u>\$ 368</u> | <u>\$ 11,203</u> | <u>\$ -</u> | <u>\$ 77,255</u> | <u>\$ 3,012</u> |

N/A = Not Applicable

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

| Year | KDHE Loan | |
|------|------------------|-----------------|
| | Principal | Interest |
| 2011 | \$ 11,605 | \$ 2,610 |
| 2012 | 12,022 | 2,193 |
| 2013 | 12,454 | 1,761 |
| 2014 | 12,901 | 1,314 |
| 2015 | 13,364 | 851 |
| 2016 | 13,845 | 370 |
| | <u>\$ 76,191</u> | <u>\$ 9,099</u> |